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THE GUARANTEED ANNUAL WAGE — SWORD OF DAMOCLES?

By JOHN E. KELLY

LEADERS of organized labor, in their perennial jousts with management, are shaping a new demand with potentialities, if pressed to its fullest extent, prejudicial to labor as well as to private enterprise. This is the guaranteed annual wage. The idea sounds good. It is pregnant with the promise of "security" — for all workers. But, the fact is that it can do nothing but set up an elite minority of the nation's employed. It will not help the mass of wage earners.

It may be that the union leaders, shrewd and able men, are taking a calculated risk by this proposal. "I would rather have 300,000 members in my union, well fed and guaranteed their year's pay", a powerful leader reportedly said recently, "than have 600,000 always worried that the plant is shutting down." But, citadels of privileges are always targets for attack by those discriminated against. What becomes of the 300,000 dropped from the union upon institution of the guaranteed annual wage? They will not commit suicide.

Cash wages in the mass production industries have risen about as high as possible at this stage of inflation. They take so big a bite from the sales dollar that if increased appreciably they will meet the tax collector gnawing through from the other side. Desperate remedies such as passing on the wage increase to the consumer, or paring the dividends to the vanishing point, resemble the discarded medical practice of bleeding.

Recognizing the futility of digging further for direct wages, labor leaders now seek, in the jargon of the conferences, "fringe benefits". Such benefits provide some additional take-home pay; but their main effect is to give the worker a vested right to his job. Among the principal benefits championed are the union shop, paid holidays, longer paid vacations, pensions, health and insurance services, labor's voice in company policy, etc. To these are added one little known to the public, called the "productivity bonus" or "annual improvement factor". The capstone of "fringe benefits" is the guaranteed annual wage.

The "fringe" programme has made impressive progress. The union shop is all but won. The annual wage increment, or "improvement factor", inserted in the General

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Motors contract of 1948, rests on the debatable assumption that industrial productivity increases yearly. In some agreements a definite figure, 1 or 2 per cent, is used.

Further, all categories of labor, from floor sweeper to machinist to designer, are usually presumed "homogeneous", increasing their output in equal proportion. A case could be made that increased productivity per plant stems more likely from improved machinery than from men, since union rules regulate man-output. A textile worker may tend only so many looms, a brickmason lay so many hundred bricks. Featherbedding on the railroads and in music is no longer a subject of comment.

THE GUARANTEED annual wage defines itself. It made an appearance in the steel dispute and previously in negotiations with motor and electric manufacturers. In each case this demand was shelved in favor of more tangible immediate gains: pay hikes and pensions. It is reported on the agenda of the coal union in the current bargaining. As other objectives are won, the guaranteed annual wage will be concentrated upon. Success in any industry will start an epidemic.

A major hotel deals with fourteen unions of its employees. If the stationary firemen and engineers obtain the boon, waiters, electricians, painters must likewise or the hostelry will be struck. Jurisdictional strikes and inter-union raiding would increase in virulence where one local enjoyed the guarantee, its rival lacked it. There would exist much more incentive to strike for the plausible benefits secured by the guaranteed annual wage than for the union shop, which brings no increased emolument to the worker already enrolled. As fast as energetic labor leaders could expand their new field, whole plants would be signed to the guarantee, entire industries.

Here enters the danger to private enterprise and free competition. Rising costs and rising taxes now thin profits to the extent that they can no longer cushion lean years. With wages constituting a major part of the finished cost of many manufactured products, the maker *must have a guaranteed market for his output if he is to meet an inflexible payroll.*

This requires not only minimum-price fixing, but allocation of the market among existing producers; new producers must not enter the field except by license. Over-all controls become necessary. If imposed by Government, we abandon free enterprise for totalitarianism. If manufacturers parcel the sales between themselves, we embrace cartels and toss anti-trust statutes out the window. The urge to invention, to improve service or lower prices, characteristics of competition, would ebb. The public, including the guaranteed wage workers, would truly "be damned", for industry as a whole would be on a monopoly basis.

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Political liberty would go the way of economic freedom. If every employee were gathered under the annual wage guarantee, job turnover must be outlawed to avoid chaos in the essential records. Workers would be frozen to their jobs.

SUPPOSE those advocating the guaranteed annual wage do not intend to extend its benefits to all employed, but restrict them to picked members of organized labor. Remember the 300,000 members cut from a body of twice that size? Here enters the danger to the unions. If "islands" of elite be formed, each delimited by its iron curtain of guarantee, a powerful impetus would be given to anti-unionism in the very heart of labor. Today in many plants and industries, union and nonunion employees receive similar compensation. But if certain employee groups were incorporated within the guarantee to the exclusion of others, the economic basis for friction is created. The job security of the excluded is lessened by the employer's obligation to pay the favored group and his consequent tendency to channel all possible work to them. "Share the work" would no longer hold.

What would constitute the wage to be guaranteed? While varying with the industry, the closer the annual figure approaches the maximum work year, the less feasible it becomes. It would have to be set very low, a sort of least common denominator. Then the figure might infringe upon the minimum-wage laws and become self-defeating. Ability to pay a given figure or percentage of the maximum work year would vary from plant to plant in the same industry, depending upon other costs, location, efficiency and intangibles. Industries are subject to wide swings of output. Where would the norm be placed?

Organized coal mines operate under union rules prescribing a maximum normal 5-day week. Would 200 working days be the measure of the guaranteed annual wage? Some companies, the well-managed, fortunate ones, might be able to pay, but a larger segment of the essential but chronically ill industry may sigh with relief if the new union contract limits annual operations to 200 days.

What of seasonal occupations, such as canning? One of Florida's principal industries is the preserving of citrus juices, with a seven-month season. Labor turnover is great, many workers are migratory. Labor organizers in such trades are less enthusiastic about the guaranteed annual wage.

THE guaranteed annual wage, or a privileged position conducive thereto, was enjoyed by medieval Venetian glass blowers and the Hanseatic merchants, guilds monopolizing their respective fields. Deserting glass workers fled to Flanders and elsewhere, setting up competing ateliers that broke the Venetian price. Commercial rivals hired freebooters to waylay Hanseatic ships and convoys, eventually to raid the north German towns.

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What about strikes under the guaranteed annual wage? Will a no-strike pledge be offered as a *quid pro quo?* How long may a striker absent himself and yet receive his guaranteed stipend?

The place (apart from service in some Government agencies) in a free economy where a guaranteed annual wage is feasible is where *de facto* it already exists, among public utilities. But utilities constitute an enclave of monopoly in our competitive system. Possessing inviolate sales territories and fixed rates of return on investment, they can promise steady employment and pay annual wages. But they may neither expand their territory nor change their prices without Government permission. Utilities dare not suspend service, cannot shut down for retooling or to take inventory, on pain of forfeiture of franchise. They cannot, as the railroads well know, abandon unprofitable lines or undertakings without lengthy public hearings, sometimes not even then.

Labor's partner in industry, capital, has no guarantee of annual income. Statistics indicate that about 83% of new ventures of all types and sizes fail within their first two years, 92% never pay a dividend from income. Dividends *are* guaranteed on some short line railroads leased to major systems. These, however, are the product of monopoly and the agreements of very long standing. It is doubtful if such guarantees could be obtained today.

Proponents of the guarantee point to the fixed income on bonds. Capital's share of the return from investment has become much less than labor's, and the stipulated bond service charge is a correspondingly minor part of total production cost. Bondholders surrender part of their potential earnings to gain security, an arrangement not feasible with labor. Hoots would greet management's counteroffer of a guaranteed annual wage in return for a lower pay scale.

Labor spokesmen also point to management's annual salaries. They have a point there, but a minor one, for the average executive tenure is at the directors' will and total management compensation amounts to a very small proportion of the wage outlay. The relative handful of managerial personnel has trained long, beginning far under the union wage scale, to assume responsibility for the plant's wellbeing, including that of the employees, and deserves reward in kind. Management also is worthy of its hire.

The guaranteed annual wage makes an undeniable sentimental appeal. But, is it economically feasible or socially desirable?

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Non-repetitive news is hard to come by these days. This fact, besides providing our Editor with an excuse for a long-delayed vacation, enables us to publish this analysis of the humbug known as

SOCIAL SECURITY

BOTH CANDIDATES have now declared themselves on the subject of Social Security and in terms that make it impossible to fathom what they mean.

General Eisenhower (Denver, August 9): "I am particularly concerned about the present inadequacy of the Social Security law and feel strongly that the law ought to be extended to presently uncovered persons." Later, his press secretary, James Hagerty, said this meant increasing the present *assistance* to the needy (because of the cheapened dollar) and did not apply to benefits received under the old age *insurance* program.

Governor Stevenson: The Governor's statements have been cryptic. On May 25, before the Democratic Convention, he addressed the National Conference of Social Work. "Where are we going?" asked he. Then, said the *New York Times,* "Governor Stevenson asserted that the great systems of public and private welfare services whose growth in the past three decades he termed 'almost astronomical' were now showing a serious weakness. Their very size, he said, forces their leaders to concentrate upon the maintenance of activities to which they are traditionally committed, instead of expressing themselves in new creative directions or searching for basic causes of dependency." Serious weakness? What did Stevenson mean?

A famous Federal Security Agency pamphlet, *Common Human Needs,* issued in 1945, made this memorable statement: *"Social Security and public assistance programs are a basic essential for attainment of the socialized state* envisaged in democratic ideology, a way of life which has so far been realized only in slight measure." How do the candidates stand on that?

Examination of our so-called Social Security system leads to the conclusion that it is politically statist — since it tends toward a greater concentration of economic power in the state; also, that it is fiscally a fraud and a swindle — in that our Old Age "insurance" is not insurance at all, but a double deception whereby the Government levies a Social Security tax insufficient to provide for the benefits which should be paid out, but which meanwhile provide immense sums which the Government uses in ways which have nothing whatever to do with Social Security.

There is no mystery about how this is done. On average, 50 million persons now pay Social Security taxes each year. In December, 1951, only 2.9 million retired persons were drawing Old Age Insurance benefits. What those 2.9 million persons (and their employers) had paid in was by no means enough to provide for the "annuities" they are getting. The funds to make up the difference come from the Social Security taxes paid in by the 50 millions who haven't retired. Indeed, these 50 millions paid in so much that, during the fiscal year 1950-51, only $1.5 billion were required out of receipts of $3.1 billion to pay current beneficiaries. The excess has been spent by the Government for other things.

But what will happen when the oncoming army of Social Security taxpayers—now paying nowhere near enough for their "annuities" — reach the retirement age? While they aren't paying enough to "insure" their own future, they are paying more than enough to give the present Government lots of money to play with. What's going to happen to them?

THE FRAUDULENT SETUP

NATIONAL WELFARE OPERATIONS (with the exception of unemployment insurance, Civil Service retirement, veterans' pensions, Railroad Retirement benefits and some other items)

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are run by a holding corporation of many bureaus swept together in 1939 as the Federal Security Agency. Public Health, Office of Education, the Food and Drug Administration and other bureaus are all part of this Agency. But the great engine, legislation mill and propaganda factory is the Social Security Administration employing nearly 15,000 persons.

Since 1947 the Administrator of the Agency has been Oscar Ewing, a bumbling, sanctimonious lawyer who, with the exception of Dean Acheson, is probably the most unpopular official in the Federal Government. The real brains of the S. S. Administration belong to three insignificant men whose pay is small, whose ambitions are boundless. They are Arthur J. Altmeyer, Commissioner for Social Security and its virtual boss; his technical Advisor, Wilbur J. Cohen; and Isidore S. Falk, Director of the Division of Research and Statistics. All three had places on Roosevelt's Committee on Economic Security in 1934 and participated in the work on the original Act in 1935. Not one is an actuary; not one is even a mathematician.

For years the energies of these men have been devoted to the expansion of compulsory, tax-sustained welfare, including compulsory health insurance. Their relations with the International Labor Organization in Geneva have been intimate for many years. (It is the I.L.O. that seeks to impose compulsory welfare by *international treaty* as a result of which Senator Bricker has proposed a preventive amendment to the Constitution.)

Not one of these three is a really strong man, intellectually or any other way. None is bold and forthright. The question arises: How did these men ever get where they are? The answer: Nature abhors a vacuum. The Wall Street Crash of '29 and the Depression unemployment terrified Congress. Action was necessary. What action? These men, and some others like them, had an "answer" and few Congressmen had the nerve and the brains to question it.

Congress is not wholly to blame. A member has to be elected before he can legislate and the few who have summoned the courage to attack the system know well what can happen. Cain of Washington, who went down the line against the omnibus Social Security bill in 1950, was consistently misrepresented in his home state press. The record of the American press on the subject is pitiable and reflects the degeneration of the reporter's profession. Most papers have swallowed whole the pap which the Security Agency puts out, with little if any effort to analyze what it prints.

The insurance people, by and large, have been as bad. Left unchecked, the expansion of the present Social Security system will utterly destroy insurance in this country, but only a scattering of the insurance fraternity have fought back. "Why resist the wave of the future?" has been their attitude, even though the wave means their ruin.

Finally, the people have been taken in. Social Security is commonly accepted as "probably a good thing", in ignorance of the fact that the liabilities coming due will be catastrophic.

Operation Ponzi

The core of the Social Security Administration's activity concerns old people. It is political. Old people vote and many old people now have a vested interest in Social Security. (The constantly expanding vested interest serves to entrench the Social Security bureaucracy.) Their total number is increasing. In 1940, out of a total population of 131 million persons, we had nine million who were 65 years of age and over. In 1950, out of a total population of 150 million, we had more than twelve million, fewer than half of which were on the Federal Social Security rolls. (2.9 million were getting Old Age "Insurance" and 2.7 million were getting Old Age Assistance — that is, relief. Total: 5.6 million.) The other half of these twelve million old people who are not yet receiving Federal money offer great opportunity to bureaucrats and propagandists.

Old age is looked after under a two-headed system.

1. *Old Age Assistance.* This is charity and consists of outright Federal appropriations to the States, which the States must match with their own money according to a formula. Out of these funds the States pay pensions (relief) to old people who are destitute. Some *are* destitute. Some are not. Back in 1935 when the Social Security

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Act was first passed the planners said that these subsidies would be "temporary". As soon as the social "insurance" part of the system began to work, the need for such payments would cease. Such has not been the case. From a start of $155 million in 1936, (Table 37, Sept., 1951, Bulletin) the sums spent on Old Age Assistance have multiplied 10 times.

2. *Old Age and Survivors "Insurance".* This other half of the system was set up in 1935, not with the *current* aged in mind but the *future* aged. This was not claimed to be a relief handout. It was called "premium (tax) paid-for insurance". (Means were discovered later to make it a handout in certain cases, as where it is possible for some 63-year-old person to pay the tax for as short a time as eighteen months and then retire with the annuity.) Payroll taxes (half from the employer, half from the employee; in the case of the self-employed the individual pays all) are levied and paid into the Treasury.

When the taxes have been paid for a specified length of time and the individual reaches 65, he may retire and draw his "annuity". How much? Since the tax is a percentage and since wages and salaries are variable, the "insurance" benefit varies. Furthermore, with the rise in living costs and the steady cheapening of the dollar, what looked like "more" once, now looks like "less" and the clamor for more and more is constant.

It would serve no purpose here to trace the infinitely complex minutiae of the system. Few persons understand them and the interpretations of the law are almost exclusively in the hands of the administrators. It is enough to simply say that not only is the system not insurance* at all, in any sense, but rather a huge swindling operation in which the current beneficiaries are paid off at the expense of the great army of Social Security tax-payers in a manner not too dissimilar from that employed by the late Charles Ponzi.

* An insurance policy is a contract between an insurance company and the insured, with fixed terms and obligations. Social Security in no way resembles this. Since Social Security taxes began to be collected, the law has been repeatedly altered. The Act states that "the right to alter, amend or repeal any provision" is expressly reserved. Conservative estimates hold that as of 1952, using standards applicable to actuarially directed pension plans, and disregarding the regulations *which permit the Administration to discriminate and avoid payment,* and taking into account the "obligations" so far ostensibly assumed, the system is now *more than 100 billion dollars in the red.* There is nothing in the Act which guarantees payment to the taxpayer.

The Opposition Wakes Up

As noted, Congress fears and hates the FSA. The fear, of course, arises from a dread as to what the voters will do if the Social Security propaganda mill goes into action. The hate crops out in various ways, as when, on August 16, 1949, the Senate struck down Truman's so-called Hoover Reorganization Plan No. 1 that set up a Cabinet Department of Welfare.

Yet Congress does not always fear. Experience has shown that, when determined, Congress can act decisively. Here are two instances:

1. *The Free Ride Case.* During the 80th Congress legislative researchers turned up the interesting fact that between 500,000 and 750,000 persons had been on the Social Security rolls for years, had been given wage credits in the records, *with no Social Security taxes ever paid by either employer or employee.* It seemed that there had long been a controversy between the Treasury and the Security people as to whether or not the persons in this big group were or were not employees. (It was a heterogeneous lot of semi-independent truckers, commission salesmen who worked when they pleased, etc.) The Treasury accepted the common law definition that such persons were not employees and hence not subject to Social Security tax nor eligible for Social Security benefits. The Security people put the group on the rolls anyhow and began paying benefits to people who had never paid taxes at all!

At length some Supreme Court decisions involving, among other things, definitions of "employee", prepared the way for the Treasury, after considerable strain, to give way to the Social Security people. Congress, after reflection, decided not to disturb the old people in the group who were already drawing benefits they had never paid anything for, and, by an "Act of Grace", authorized enough money to pay the cost. But, Congress struck out the phony wage credits by enacting House Joint Resolution 296. Simultaneously Congress made clear that if these people were to come on the rolls it must be accomplished through legislation and not by bureaucratic fiat. (Subsequently these people were legislated in.) Truman vetoed the Reso-

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lution and, on June 14, 1948, Congress promptly passed it over his veto.

The Administration saw in this another opportunity for the big lie; in August, 1948, when Truman went to Philadelphia to accept the nomination, he charged the Republicans with "taking 750,000 off the Social Security rolls." The implications were that a helpless group who had been putting their mite into the fund for years had been flung on the scrap heap by a band of Republican thugs.

2. *The Jenner Amendment.* A year ago, Senator William Jenner of Indiana succeeded in attaching to the Revenue Act of 1951 an amendment which broke the Federal Security Agency's secrecy rule. Previously, the Agency had enforced a rule forbidding states from making public the names of those receiving assistance. The stated reason was to prevent the humiliation of those receiving relief. Even State auditing officials in Indiana were refused access to the rolls. The rule gave the Administrator great power. He could grant or withhold funds from a state as he chose and he had hundreds of millions at his disposal. Investigation in Indiana showed that under cover of the secrecy rule there was widespread petty graft and corruption. Forthwith the Indiana Legislature passed a law making the relief rolls, under certain circumstances, public. In turn, Oscar Ewing withheld grants from Indiana.

The fight began. Jenner's Amendment held that no State could be deprived of grants-in-aid just because it gave public access to records of disbursement. Jenner took the ground that since the taxpayers provided the money they had a right to know how it was spent. The Amendment passed and became law. The question is now with the Supreme Court.

Honest Social Security

IT IS HARD TO BELIEVE that a people as intelligent as Americans are touted to be would ever permit such a swindle to be put over on them. Yet the swindle was accomplished and it grows more serious year by year.

Long ago, in 1908, an acid-minded American actuary named Miles Menander Dawson went to Rome to address an international social insurance Congress. He enunciated this bald truth: Those who can't work must be supported by those who do. Furthermore, you can't postpone paying the bill. You must pay as you go along. Nobody paid any attention to Dawson.

Herbert Hoover offered this to Chairman Doughton of the House Ways and Means in 1949: "I suggest that the committee consider abandoning the whole reserve fund concept and that the Federal insurance system be put on a pay-as-you-go basis." If an identical contribution be made to *every* person in the country at the agreed-upon retirement age, the octopus mechanics of the Security Agency should be obliterated. Experts have estimated that the task could be handled by the Treasury with fewer than a thousand personnel. The total annual cost would be stiff and would seem more so to a public that has no realization of where the present system is taking us. Illustration: In 1950 we had about 12 million persons 65 and over in our population. During the fiscal year 1950-51 the Federal Government paid out 2.3 billion in combined "insurance" and old age assistance. If we paid $40 a month to the 12 million the bill would be somewhat over $5.7.

But it would be *paid for,* without any future commitment which present old age "insurance" is not. Who would be against such a program? (1) The Federal Security Agency, fighting for its life with every propaganda stop out. (2) The Old Age lobby, led by the Townsendites, who are asking for the world in a jug. (3) A large section of the public who would be horrified at the cost, unaware of what the Security Agency cost will eventually be. But, it is a bald statement of the fact that you simply can't get something for nothing in this world.

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